

Keys to the market

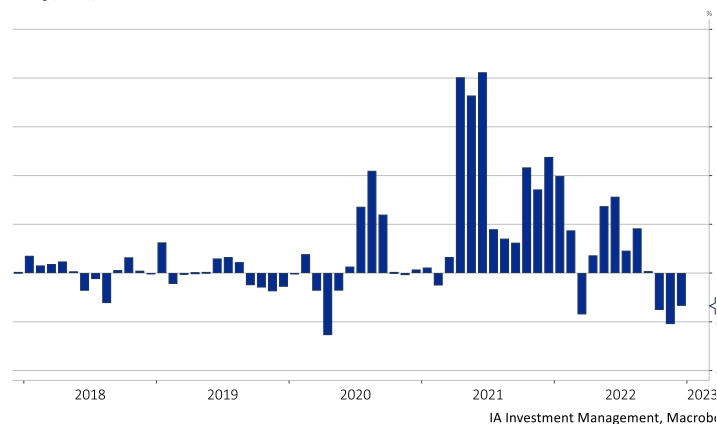
What happened last week

January 13, 2023

The financial markets maintained an upbeat tone all week, amid expectations that the Chinese economy will receive a boost as COVID restrictions are lifted as well as evidence of inflation's downward trend in the United States. The December CPI number published on Thursday did not disappoint, coming in just as expected. Year-over-year inflation in the United States now stands at 6.5%, down from 7.1% a month earlier. Although core goods and total inflation are falling fast, services inflation, a key indicator for the Fed at this stage, is still running high. Meanwhile, Fed officials stressed the need for a terminal rate above 5%. Even so, equities and bonds staged a nice rally, closing their second positive week of the new year. Further challenges lie ahead, however, as earnings season kicks off. Profitability misses and earnings outlook revisions could weigh on risk assets in the coming weeks.

U.S.: Core Goods CPI

% Change, MoM, as at 2022-12



Bond Market

The bond markets are starting 2023 by directly challenging the fortitude of the US Fed in its battle against inflation. Yields came down another 10+ basis points during the week, with performance strengthening as one moved out on the curve, and thus triggered several more basis points of steepening. Even though many Fed officials are trumpeting 5%+ rates throughout 2023, the market is pricing in a rate of less than 5%, indicating a slowdown at some point. We continue to see no reason not to take the Fed and the BoC at face value; therefore, we think yields are in for some corrective activity in the coming weeks. Credit similarly rallied on the week, also buoyed by a potential Fed pivot and completely disregarding the

Highlights

- Falling inflation numbers and China's easing of restrictions generated positive market sentiment, sparking a rally in stocks and bonds alike
- The Fed emphasized the importance of a terminal rate above 5%
- As we enter earnings season, downward revisions could dampen enthusiasm

On our radar

- In Canada: December existing home sales and housing starts, CPI and retail sales
- In the United States: December retail sales, PPI, housing starts and existing home sales

potential for anything other than a soft landing. With earnings season upon us, we will see whether the expected 2023 forecast revisions dampen the enthusiasm.

Stock Market

The week was marked by multiple data points highlighting better-than-expected results for the fourth quarter of 2022. Updates from major retail players showcased the resiliency of the consumer, with brands such as Lululemon, Crocs and Aritzia all reporting unexpectedly good top-line results for the fourth quarter as well as improved guidance for 2023. The week also saw the JP Morgan Health Care Conference, where more than 100 companies preannounced their results with a tone that tended to be cautiously optimistic. Lastly, the Morgan Stanley CIO survey for the fourth quarter also hinted at better-than-expected enterprise spending in 2023.

All eyes are turned to the earnings season, which will shift into high gear next week. From the preannouncements, things look better than expected for the last quarter of 2022. We remain cautiously optimistic but acknowledge that some sectors could be at risk of downward earnings revisions in the coming weeks.

Markets

(Total Return in \$CAD)

As at January 12, 2023	WTD %	MTD %	YTD %	1Y %	3Y %	5Y %
Equities						
S&P 500	1.71	2.68	2.68	-8.19	9.56	10.84
S&P/TSX	2.01	4.38	4.38	-2.56	8.69	7.62
NASDAQ	3.20	3.62	3.62	-22.80	9.49	12.68
MSCI ACWI	2.08	3.42	3.42	-7.82	7.16	7.74
MSCI EAFE	2.74	4.95	4.95	-3.44	3.73	3.43
MSCI EM	2.42	5.35	5.35	-10.96	0.05	0.77
Commodities (USD)						
Gold	1.68	4.01	4.01	3.88	6.69	7.24
CRB	1.76	0.42	0.42	-5.09	11.00	4.84
WTI	6.26	-2.33	-2.33	-5.14	9.91	4.04
Fixed Income						
FTSE TMX Canada Universe	1.51	3.04	3.04	-6.78	-1.45	1.00
FTSE TMX Canada Long	2.84	5.91	5.91	-12.93	-4.37	0.29
FTSE TMX Canada Corporate Overall	1.23	2.39	2.39	-5.98	-0.56	1.65
Currencies						
USD trade-weighted index	-1.57	-1.23	-1.23	7.72	1.65	2.36
USDCAD	-0.57	-1.38	-1.38	6.86	0.80	1.42
USDEUR	-1.93	-1.36	-1.36	5.41	0.81	2.37
USDJPY	-2.14	-1.43	-1.43	12.74	5.70	3.08
USDGBP	-0.96	-1.04	-1.04	12.22	2.28	2.37

Source: iA Investment Management, Bloomberg

	CA	US
Bond yields		
2Y	3.80	4.14
5Y	3.03	3.54
10Y	2.90	3.44
30Y	2.93	3.58
Credit spreads		
IG corporate bonds	173	133
HY bonds	380	429

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